

DEPARTMENT OF INDUSTRIAL RELATIONS  
OFFICE OF THE DIRECTOR  
P. O. Box 420603  
San Francisco, CA 94142



(415) 703-4600

DATE: 26 November 2001  
TO: All Insurers Authorized to Transact Workers' Compensation in California  
SUBJECT: User Funding Assessment and Fraud Surcharge

On the basis of the direct workers' compensation premiums reported by you or your carriers to the Department of Insurance for Calendar Year **2000**, an assessment invoice, and/or surcharge reflecting your company or companies share of the following assessment is enclosed:

- the **\$19,221,000** Workers' Compensation "User Funding" Assessment (Pursuant to Labor Code 62.5) for **2001-2002**, and
- the **\$30,309,000** surcharge approved by the Fraud Assessment Commission (Pursuant to Labor Code 62.6) for **2001-2002**

### Payments

Please note that your first installment is **due on or before January 1, 2002**, with the balance due on or before **April 1, 2002**.

### Methodology

Labor Code Sections 62.5 and 62.6 require the user funding assessment and fraud surcharge be allocated between insured and self-insured employers in proportion to payroll for the most recent year available.

Attached is the methodology used to compute the user funding and fraud allocation and the resulting determination of the respective assessment factors.

Your share of the user funding assessment has been calculated by multiplying the insured employer user funding assessment factor, **0.001335** by your total 2000 California direct written premium, and pursuant to regulations [Title 8, CCR, Subchapter 2.06, Article 1, § 15606(b)], multiplying the result by the ratio of the expected total current year (**2001**) premium (**\$11,200,000,000**) to the total direct **2000** written workers' compensation premium of all insurers (**\$9,248,919,237**) or **1.210952298%**.

Similarly, your share of the fraud surcharge has been calculated by multiplying the insured employer fraud assessment factor, **0.002168** by your total **2000** California direct written premium, and, pursuant to regulations [Title 8, CCR, Subchapter 2.06, Article 1, § 15606(b)], multiplying the result by the ratio of the expected total current year (**2001**) premium (**\$11,200,000,000**) to the total direct **2000** written workers' compensation premium of all insurers (**\$9,248,919,237**) or **1.210952298%**.

If you were a single carrier and not part of an insurer group who reported data to the WCIRB on an individual company basis for 2000, your total California written premium for the purposes of these assessments is the amount reported for calendar 2000 to the WCIRB, which reflects the premiums charged to policyholders with the exception that it excludes the impact of deductible credits, retrospective rating adjustments, and policyholder dividends.

If you were part of an insurer group who reported data to the WCIRB for 2000, your total California written premium for the assessment purposes has been determined as the product of (a) the total 2000 written premium reported to the WCIRB on the aforementioned basis and (b) the ratio of your company's 2000 California written premium as reported in the 2000 Statutory Annual Statement (these amounts include the effect of deductible credits and retrospective rating adjustments) to the total 2000 Statutory Annual Statement California written premium reported for your insurer group as a whole.

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All workers' compensation insurance policies issued by you with an inception date during the calendar year **2002** must be surcharged to recover amounts advanced on behalf of policyholders. The user funding factor for **2002** policies, applied to the estimated annual assessable premium\*, is **0.001335**, the same as that used to calculate your user funding assessment. Similarly, the fraud surcharge factor for **2002** policies, applied to the estimated annual assessable premium\*, is **0.002168**, the same as that used to calculate your fraud surcharge.

\*Assessable Premium = the premium the insured is charged after all rating adjustments (experience rating, schedule rating, premium discounts expense constants, retrospective rating, etc.) except for adjustments resulting from the application of deductible plans or the return of policyholder dividend.

If you have any questions, please contact Sven Norrlander, Program Manager in the Division of Workers' Compensation at email address: [userfundhelp@dir.ca.gov](mailto:userfundhelp@dir.ca.gov), or call Naomi P. Carter at (415)703-4652.

Sincerely,

Stephen J. Smith, Director

Enclosures

California Department of Industrial Relations  
2001-2002 Workers' Compensation  
User Funding and Fraud Assessment Methodology

**METHODOLOGY**

Labor Code sections 62.5 and 62.6 require the Department of Industrial Relations to levy the total amounts of the User funding assessment and Fraud surcharge between insured employers and self-insured employers in proportion to payroll paid in the most recent year for which information is available.

**Step 1: Determine Total Assessments Required for 2000-2001**

**User Funding Assessment**

Pursuant to the provisions of labor Code Section 62.5,  
the employer assessments required for 2001-2002 is:

\$19,221,000

**Fraud Surcharge**

The fraud surcharge is established by the Fraud Commission.  
The Commission authorized an assessment for 2001-2002 of:

\$30,309,000

**Step 2: Determine Payroll Amounts**

Total payroll for insured employers:

\$310,443,243,838

(Source): California Workers' Compensation Insurance Rating Bureau,  
[WCIRB] Policy year 1998

Payroll for self-insured employers:  
(excluding State of California)

\$106,657,045,166

(Source): Department of Industrial Relations, Office of Self-Insurance Plans,  
1999-00 Fiscal Year for Public Sector = \$45,424,671,006  
2000 for Private Sector = \$61,232,374,160

Payroll for State of California (including SCIF)

\$10,661,697,233

(Source: Department of Personnel Administration, Fiscal Year 1999-00)

Total payroll for self-insured employers

\$117,318,742,399

Total combined payroll

\$427,761,986,237

(Insured and self-insured employers)

**Step 3: Calculate Proportional Payroll for Insured and Self-Insured Employers**

Insured Employers:

Insured Employer Payroll =

\$310,443,243,838

72.57%

Total Combined Payroll

\$427,761,986,237

Self-Insured Employers:

Self-Insured Employer Payroll =

\$117,318,742,399

27.43%

Total Combined Payroll

\$427,761,986,237

**Step 4: Determine the total assessments for Insured and Self-Insured Employers**

**User Funding Assessment**

Total Insured Employers Assessment:

Total Assessment Required x 72.57% = \$19,221,000 x 72.57% =  
increased by credits due individual insurers which undercollected  
against previous advances [pursuant to CCR Sec 15609]

\$13,948,680

\$4,507,644

decreased by the fund balance [pursuant to CCR Sec 15606(f)]

(\$3,579,867)

increased for SIP overcollection

\$75,600

Resulting Final Insured Employers Assessment:

\$14,952,057

**2001-2002 Workers' Compensation  
User Funding and Fraud Assessment Methodology**

Total Assessment Required x 27.43% = \$19,221,000 x 27.43% =	\$5,272,320
decreased by the Self-Insurer overcollection from prior year	<u>(\$75,600)</u>
Resulting Final Self-Insured Employers Assessment:	\$5,196,720

**Fraud Surcharge**

Total Insured Employers Surcharge:

Total Surcharge Required x 72.57% = \$30,309,000 x 72.57% =	\$21,995,241
Increased by credits due individual insurers which undercollected against previous advances [pursuant to CCR Sec 15609]	\$6,252,989
decreased by the fund balance [pursuant to CCR Sec 15606(f)]	(\$4,093,030)
increased for SIP overcollection	\$128,372

Resulting Final Insured Employers Surcharge:	\$24,283,572
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Total Self-Insured Employers Surcharge:

Total Surcharge Required x 27.43% = \$30,309,000 x 27.43% =	\$8,313,759
This amount is decreased by the Self-Insurer overcollection from the prior year	(\$128,372)

Resulting Final Self-Insured Employers Assessment:	\$8,185,387
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**Step 5: Calculate the Assessment Factors for Insured and Self-Insured Employers**

**User Funding Assessment Factors**

Insured Employers User Funding Assessment Factor:

<u>Total Insured Employers Assessment =</u>	<u>\$14,952,057 =</u>	0.001335
Total Direct Workers' Compensation	\$11,200,000,000	
Estimated Premium (Source: WCIRB estimate for 2001 Policy Year)		

Self-Insured Employers User Funding Assessment Factor:

<u>Total Self-Insured Employer Assessment =</u>	<u>\$5,196,720 =</u>	0.003490
Total Amount of Workers' Compensation Indemnity Paid	\$1,489,185,856	
(Source): Dept. of Industrial Relations, Office of Self-Insurance Plans:		
1999-00 Public Sector =	\$635,599,442	
2000 Private Sector =	\$722,787,256	
Department of Personnel Administration,		
1999-00 State of California =	\$130,799,158	

**Fraud Surcharge Assessment Factor**

<u>Total Insured Employer Surcharge =</u>	<u>\$24,283,572</u>	0.002168
Total Direct Workers' Compensation	\$11,200,000,000	
Estimated Premium (Source: WCIRB estimate for 2001 Policy Year)		

<u>Total Self-Insured Employer Surcharge =</u>	<u>\$8,185,387</u>	0.005497
Total Amount of Workers' Compensation Indemnity Paid	\$1,489,185,856	
(Source): Dept. of Industrial Relations, Office of Self-Insurance Plans:		
1999-00 Public Sector =	\$635,599,442	
2000 Private Sector =	\$722,787,256	
Department of Personnel Administration,		
1999-00 State of California =	\$130,799,158	

**2001-2002 Workers' Compensation  
User Funding and Fraud Assessment Methodology**

**Step 6: Determine individual employer's User Funding Assessment**

Individual Insured Employer User Funding Assessment:

Assessment Factor  $.001335 \times$  Employer's Expected Assessable Premium\*

Individual Self-Insured Employer User Funding Assessment:

Assessment Factor  $.003490 \times$  Total Indemnity Paid by the Employer

**Step 7: Determine individual employer's Fraud Surcharge**

Individual Insured Employer Fraud Surcharge:

Assessment Factor  $.002168 \times$  Employer's Expected Assessable Premium\*

Individual Self-Insured Employer Fraud Surcharge:

Assessment Factor  $.005497 \times$  Total Indemnity Paid by the Employer

\* Assessable Premium = The premium the insured is charged after all rating adjustments (experience rating, schedule rating, premium discounts, expense constants, retrospective rating, etc.) except for adjustments resulting from the application of deductible plans or the return of policy holder dividend.

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(415) 703-4600

DATE : November 26, 2001  
TO : State of California as a Legally-Uninsured Employers  
SUBJECT : Workers' Compensation "User Funding" Assessment and Fraud Surcharge

Dear State of California Agency:

The purpose of this letter is to inform you that you will be receiving an invoice for your share of the **\$19,221,000** Workers' Compensation "User funding" Assessment for **2001-2002**, and the **\$30,309,000** surcharge approved by the Fraud Assessment Commission for **2001-2002**.

Labor Code sections 62.5 and 62.6 require that the total assessment be allocated between insured and self-insured employers in proportion to payroll for the most recent year available.

Attached is the methodology used to compute the user funding and fraud allocation and the resulting determination of the respective assessment factors.

Your share of the user funding assessment will be calculated by multiplying the self insured employer user funding assessment factor, **0.003490**, by the total indemnity paid by your organization. Similarly, your share of the fraud surcharge will be calculated by multiplying the self-insured employer fraud assessment factor, **0.005497**, by the total indemnity paid by your organization.

If you have any questions, please contact Sven Norrlander, Program Manager in the Division of Workers' Compensation, at e-mail address: [userfundhelp@dir.ca.gov](mailto:userfundhelp@dir.ca.gov). or call Naomi P. Carter at (415)703-4652.

Sincerely,,

Stephen J. Smith, Director

Enclosure

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(415) 703-4600

DATE : November 26, 2001  
TO : All Self-Insured Employers in California  
SUBJECT : Workers' Compensation "User Funding" Assessment and Fraud Surcharge

Dear California Self-Insured Employer:

The purpose of this letter is to inform you that you will be receiving an invoice for your share of the **\$19,221,000** Workers' Compensation "User funding" Assessment for **2001-2002**, and the **\$30,309,000** surcharge approved by the Fraud Assessment Commission for **2001-2002**.

Labor Code sections 62.5 and 62.6 require that the total assessment be allocated between insured and self-insured employers in proportion to payroll for the most recent year available.

Attached is the methodology used to compute the user funding and fraud allocation and the resulting determination of the respective assessment factors.

Your share of the user funding assessment will be calculated by multiplying the self insured employer user funding assessment factor, **0.003490**, by the total indemnity paid by your organization. Similarly, your share of the fraud surcharge will be calculated by multiplying the self-insured employer fraud assessment factor, **0.005497**, by the total indemnity paid by your organization.

If you have any questions, please contact Sven Norrlander, Program Manager in the Division of Workers' Compensation, at e-mail address: [userfundhelp@dir.ca.gov](mailto:userfundhelp@dir.ca.gov) or call Naomi P. Carter at (415)703-4652.

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Stephen J. Smith, Director

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